

Message Text

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SUBJECT: SINO-CHINESE TRADE COMMISSION

SUMMARY: TWO COMMERCIALY-ORIENTED TECHNICAL EXCHANGES WERE
MAIN RESULT OF THE SINO-CANADIAN JOINT TRADE COMMISSION'S
THIRD MEETING, FEB 16-19 IN PEKING. IN KEEPING WITH THE
LOW-KEY TONE OF THEIR BILATERAL TRADE, NEITHER SIDE HAD
MAJOR CONTENTIOUS ISSUES THOUGH PEKING INCREASED VERBAL
PRESSURE ON THE CANADIANS TO BRING TRADE INTO BALANCE.
THE OUTLOOK IS FOR PRC IMPORTS OF CANADIAN GOODS TO
DECLINE FUTHER IN 1976, DUE TO REDUCED WHEAT PURCHASES,
BUT ECONOMIC FACTORS, RATHER THAN POLITICAL OR BALANCE OF
TRADE CONSIDERATION ARE BELIEVED TO BE RESPONSIBLE.
THE CURRENT POLITICAL CAMPAIGN DID NOT FIGURE IN DISCUSSIONS,
AND THE CANADIANS RECIEVED NO INDICATION THAT FOREIGN
TRADE POLICY WAS UNDER ATTACK. END SUMMARY.

1. IN KEEPING WITH THE LOW-KEY TONE OF SINO-CANADIAN
ECONOMIC RELATION, THE THIRD SESSION OF THE SINO-
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CANADIAN JOINT GRADE COMMISSION (JCT) HEL IN PEKING

THIS YEAR--WENT MUCH AS EXPECTED, ACCORDING TO THE CANADIAN DELEGATION WHICH EXITED THE PRC THROUGH HONG KONG. THE MAIN RESULT WAS A COMMERCIALY-ORIENTED TECHNICAL EXCHANGE AGREEMENT PROVIDING FOR A CANADIAN GEOPHYSICAL DELEGATION AND A CHINESE MATERIALS HANDLING DELEGATION. THROUGH NOVEMBER 1975, THE PRC HAD IMPORTED ONLY \$27,000 WORTH OF CANADIAN GEOPHYSICAL PROSPECTING EQUIPMENT, AND NO MATERIALS HANDLING EQUIPMENT. THIS KIND OF TECHNICAL EXCHANGE IS A REGULAR FEATURE OF SINO-CANADIAN ECONOMIC RELATIONS. LAST YEAR'S CHINESE RAILROAD DELEGATION WAS ONLY INTRESTED IN PERMAFROST CONSTRUCTION TECHNIQUES, AND NO CONSTRUCTION EQUIPMENT SALE ARE EXPECTED. FOLLOWING THE FEB 19, CONCLUSION OF THE JCT, THE PRC FOREIGN TRADE MINISTRY (MFT) HOSTED A TRIP TO THE TACHING OILFIELD.

2. THE CANADIAN SOUGHT TO PROMOTE THE SALE OF A BROADER RANGE OF MANUFACTURED GOODS. AT PRESENT, SUCH SALES, INCLUDING GEOPHYSICAL EQUIPMENT AND GAS TURBINES, ACCOUNT FOR ONLY ABOUT TWO PERCENT.(JUST OVER \$6 MILLION IN 1975) OF CANADIAN EXPORTS TO THE PRC. IN THIS REGARD, THE CANADIANS FEEL THEY HAVE LITTLE TO SHOW FOR THEIR APRIL 1974 CANADIAN ELECTRONICS AND SCIENTIFIC INSTRUMENTS EXHIBITION IN SHANGHAI. IN A PUZZLING MOVE, THE CHINESE MENTIONED THAT THEY HAD PURCHASED \$26 MILLION WORTH OF OILFIELD EQUIPMENT FROM DRESSER INDUSTRIES OF ALBERTA. HOWEVER, THE CANADIANS ALREADY KNEW THAT THIS EQUIPMENT WLL ALL COME FROM HOUSTON, TEXAS. PREVIOUS TALKS WITH PRC EMBASSY OTTAWA COMMERCIAL OFFICERS ON THIS SALE LEAD ONE CANADIAN COMMERCIAL OFFICER TO SPECUALTE THAT, FOR PRC DOMESTIC REASONS, THE CHINESE SOUGHT TO DEIVERSIFY, AT LEAST ON PAPER, THE COUNTRIES FROM WHICH THEY PURCHASE SUCH EQUIPMENT. IN SUM, MFT'S VERBAL RESPONSE AND SUBSEQUENT CANADIAN CALLS ON MACHIMPEX, WERE ENCOURAGIN,BUT THE CANADIANS ARE FAMILIAR ENOUGH WITH CHINESE POLITENSESS NOT TO EXPECT SPECTACULAR RESULTS SOON.

3. THE LONG PROPOSED CANADIAN-PACIFIC (CP) AIR ROUTE FROM VANCOUVER TO PEKING VIA TOKYO WAS NOT DISCUSSED.
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WHEN LAST ASKED BY GOC OFFICERS, CP OFFICIALS RESPONDED THAT THE ROUTE SEEMED CLEARLY UNPROFITABLE AT THE PRESENT TIME AND THEY WERE NO LONGER INTERESTED IN PURSUING THE MATTER.

4. IN THEIR PRESENTATIONS, THE CHINESE AGAIN RAISED THE CHRONIC BILATERAL TRADE DEFICIT, BUT IN A MORE FORCEFUL TONE, SUGGESTING THAT IT COULD NOT HELP BUT

INFLUENCE TRADE. BASED ON 11 MONTHS DATA, CANADIAN EXPORTS APPARENTLY EXCEEDED \$370 MILLION WHILE IMPORTS REACHED ONLY \$60 MILLION, LEAVING A DEFICIT SMALLER THAN LAST YEAR'S (\$385 MILLION) BUT STILL SIZEABLE--\$310 MILLION.

5. THE CHINESE PROTESTED IMPORT CONTROLS ON ALARM CLOCKS, A \$100,000 PRC EXPORT IN 1975, BUT WERE RELATIVELY EASILY MOLLIFIED WHEN TOLD THAT THEIR SHARE OF THE (DECLINING) IMPORT MARKET REMAIN THE SAME. THE NEW CANADIAN BILINGUAL LABELING LAW MAY CREATE SOME DIFFICULTIES, ESPECIALLY FOR THE RELATIVELY INFLEXIBLE PRC CEROILFOOD CORPORATION, OVERALL, THE CHINESE HAVE BEEN FRUSTRATED IN SELLING TO CANADA. IN SPITE OF LITTLE COMPETITION FROM CANADIAN DOMESTIC TEXTILE PRODUCERS AND FULL MFN STATUS SINCE 1949, PRC EXPORTS TO CANADA HAVE GROWN ONLY SLOWLY OVER THE PAST FOUR YEARS. ON A PER CAPITA BASIS, THEY ARE FAR BELOW THOSE TO AUSTRALIA, A ROUGHLY SIMILAR MARKET. KEY FACTORS HINDERING PRC EXPORTS SEEM TO BE RELATIVELY GREATER CANADIAN FASHION CONSCIOUSNESS, AND CHINESE IN ABILITY OR UNWILLINGNESS TO TAKE ADVANTAGE OF THE GOC'S COPIOUS AVAILABLE ADVICE AND ASSISTANCE TO ENCOURAGE MORE IMPORTS FROM CHINA.

6. THE OUTLOOK FOR 1976 IS FOR CHINESE EXPORTS TO CANADA TO REACH \$60 MILLION OR PERHAPS SLIGHT HIGHER, WHILE IMPORTS FROM CANADA ARE LIKELY TO DECLINE, POSSIBLY TO AROUND \$300 MILLION.. THE MAIN COMMODITIES ARE EXPECTED TO BE WHEAT (\$200 MILLION ESTIMATE) AND ALUMINUM (AT LEAST \$25 MILLION).

7. THE CANADIAN SAID THAT THE CURRENT POLITICAL CAMPAIGN DID NOT FIGURE IN THE DISCUSSIONS, NOR DID
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THE CHINESE INDICATE THAT PRESENT FOREIGN TRADE POLICIES WERE BEING QUESTIONED. ALTHOUGH THE CHINESE REFUSED TO BE DRAWN OUT ON THE DETAILS OF THE FIFTH FIVE YEAR PLAN, THEY DID NOT ACT AS UNCERTAIN ABOUT FUTURE TRADE PROSPECTS AS SOME PRC OFFICIALS DID DURING THE EARLY DAYS OF THE PI-LIN PI-KUNG CAMPAIGN IN EARLY 1974. IN THIS CONNECTION, THE AUSTRALIANS NOTED THAT AT THEIR FEB. 20 DINNER FOR THE NEW AUSTRALIAN TRADE COMMISSIONER--ATTENDED BY FT MINISTER LI CHIANG, VM CHAI SHU-FON, MFT DEPUTY DEPARTMENT DIRECTOR FOR AUSTRALIA SUN, AND FOUR DEPUTY MANAGING DIRECTORS OF FT CORPORATIONS MOST CLOSELY CONNECTED WITH AUSTRALIA--THE CHINESE MUTED CONTENTIONS ISSUES SUCH AS THE CHRONIC TRADE IMBALANCE AND UNILATERAL TEXTILE QUOTAS, WHILE GIVING THE AUSTRALIANS THE IMPRESSION

THAT THE PRC WISHES TO CONTINUE THE DEVELOPMENT OF TRADE.

8. COMMENT: THERE WAS RELATIVELY LITTLE FOR THE JTC TO DISCUSS, SINCE CHINA PURCHASES MAINLY COMMODITIES FROM CANADA. IN 1975, COMMODITIES ACCOUNTED FOR 96 PERCENT OF CANADA'S EXPORTS-WHEAT 83 PERCENT, METALS/MINERAL 7 PERCENT, AND PULP AND PAPER 6 PERCENT. IN MOST CIRCUMSTANCE, EXPORT OF THESE GOODS IS RELATIVELY DIFFICULT FOR GOVERNMENTS TO "PROMOTE" SINCE INDEPENDENT FACTORS SUCH AS PRICE, DELIVERY, AND COMPARATIVE SUBSTITUTABILITY HAVE GREATER IMPORTANCE. BUT THE CONTINUING NEED OF THE CHINESE ECONOMY FOR COMMODITIES WHICH CANADA PRODUCES FOR EXPORT SHOULD ENSURE THAT SINO-CANADIAN TRADE CONTINUES AT SUBSTANTIAL LEVELS FOR AT LEAST THE NEXT SEVERAL YEARS.
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